

CKGSB BCI

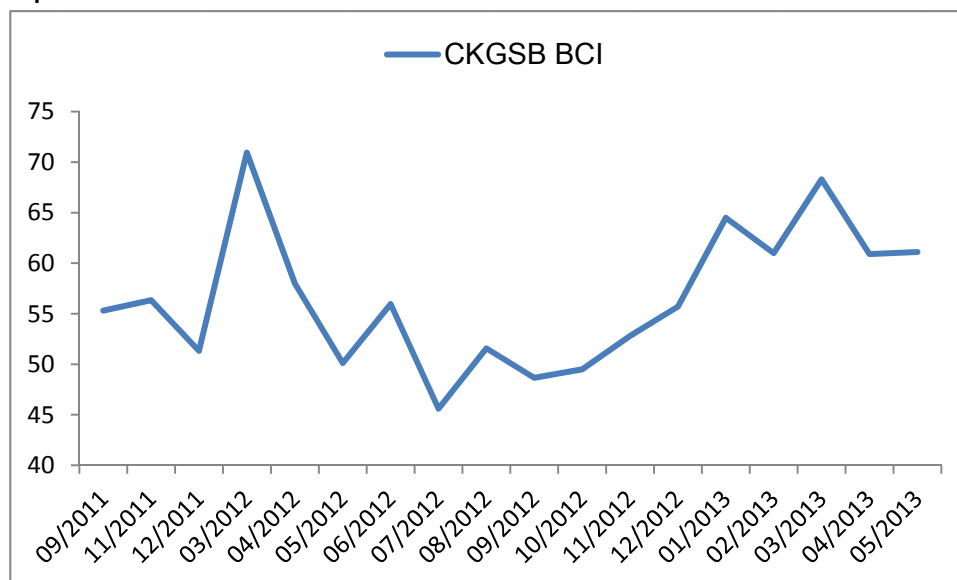
May 2013

28 May 2013

CKGSB Case Center and Center for Economic Research

In May, the Business Conditions Index (CKGSB BCI), calculated on the basis of a survey of leading executives in China, remained positive with a figure of 61.1 (see Graph 1), a slight increase on April's index of 60.9. With 50 considered the confidence threshold, an index of over 60 suggests that most comparatively successful entrepreneurs feel optimistic about future business conditions. However, looking at how the trend has been developing, China's macro-economic conditions are not yet stable.

Graph 1



Source: CKGSB Case Center and Center for Economic Research

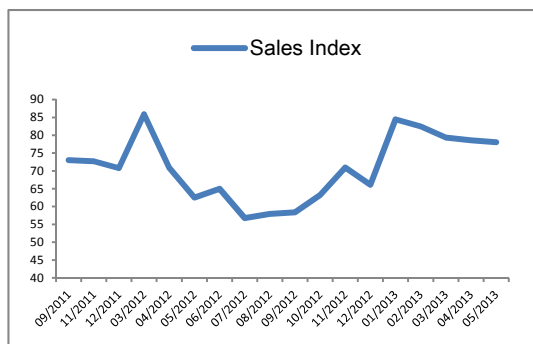
The CKGSB BCI comprises four sub-indices measuring forecasts for corporate sales, corporate profit, corporate financing environment and inventory levels.

April's corporate sales index of 78.6 dropped just six percentage points to 78 in May (see Graph 2), but the index measuring profit forecasts jumped from 48.1 to 64.3 (see Graph 3). In April's report we noted that, "While corporate sales registered a small drop, the profits index drop was more remarkable, which cannot be easily understood by changes in general forecasts. We believe this drop is related to sampling issues." With the return to an optimistic forecast by survey respondents in May, it appears that April's poor profit index is indeed likely to have been the result of sampling issues.

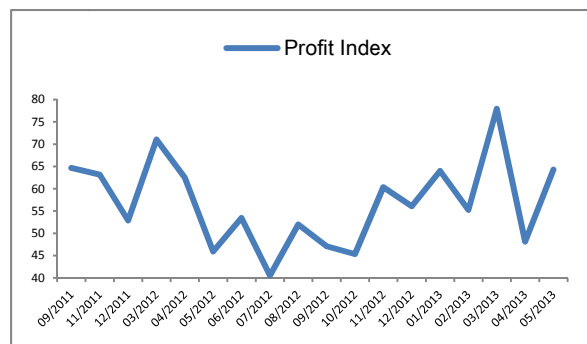
In May, the corporate financing environment index rose from 51.9 to 54.9, hovering just above

the 50 percent threshold (see Graph 4). Because our sample consists predominantly of private firms, this index mainly reflects the financing conditions for private firms. At the same time, prospects for inventory levels dropped slightly from 52.6 to 50, showing a split between optimistic and pessimistic respondents on this measure (see Graph 5).

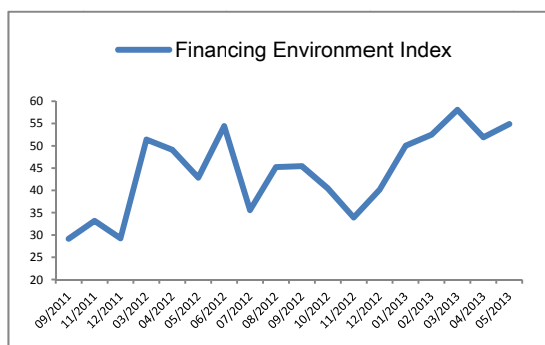
Graph 2



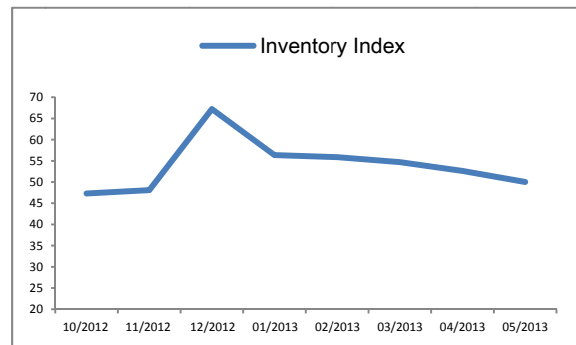
Graph 2



Graph 3



Graph 4



Source: CKGSB Case Center and Center for Economic Research

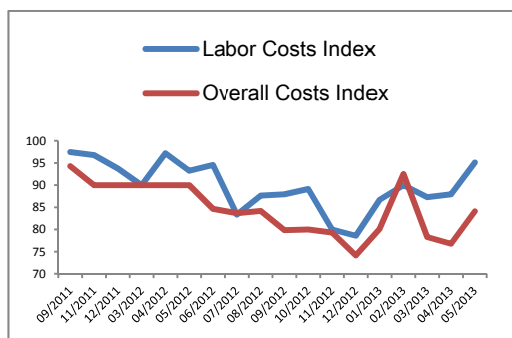
Source: CKGSB Case Center and Center for Economic Research

Besides the main CKGSB BCI we ask survey respondents about their forecasts for costs, investment, prices and recruitment to form a parallel index. This report will proceed to describe May's business environment in these terms.

Regarding costs, May's indices reveal a rebound in confidence, with labor costs reaching a high of 95.1, up from last month's index of 87.9. The index measuring overall costs rose from 76.8 to 84.1 (see Graph 6), and labor demand remained in the high 60s, falling just slightly from 68.3 to 67.1 (see Graph 7).

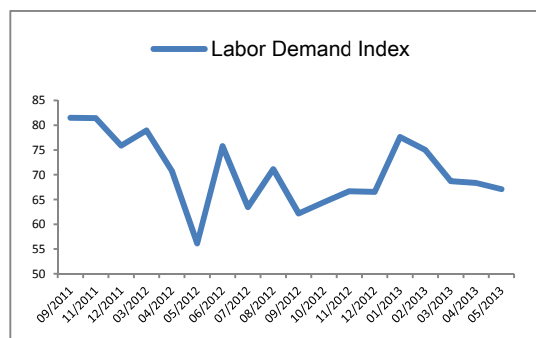
With the indices for overall costs and labor costs at 95.1 and 84.1, we can see that the vast majority of entrepreneurs believe costs will rise in the next six months compared with the same period last year. The index measuring labor demand is close to 70 in May, showing that at the very least, most firms do not expect to cut staff in the next six months.

Graph 5



Source: CKGSB Case Center and Center for Economic Research

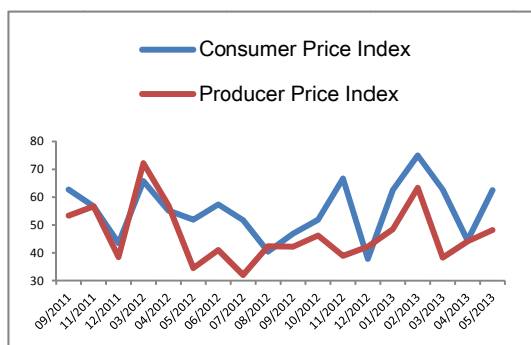
Graph 6



Source: CKGSB Case Center and Center for Economic Research

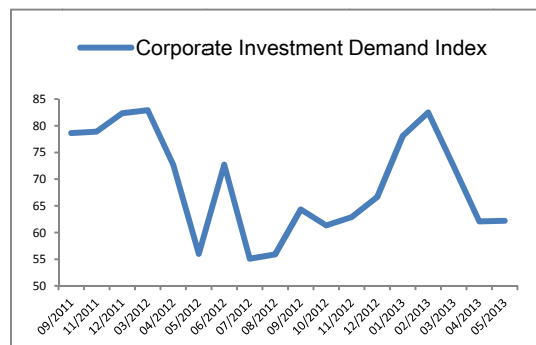
In terms of product prices, both made a rebound in May, with consumer prices reaching 62.5, up from April's figure of 44.4, and producer prices rising moderately from 44.1 to 48.2 (see Graph 8). The change in the consumer price index is relatively large, possibly explained by fairly poor samples in March and April. It now appears that April's sample was particularly weak. Besides pricing, the corporate investment demand index is almost flat with May's index of 62.2 just one percentage point higher than April's index of 62.1 (see Graph 9).

Graph 8



Source: CKGSB Case Center and Center for Economic Research

Graph 9

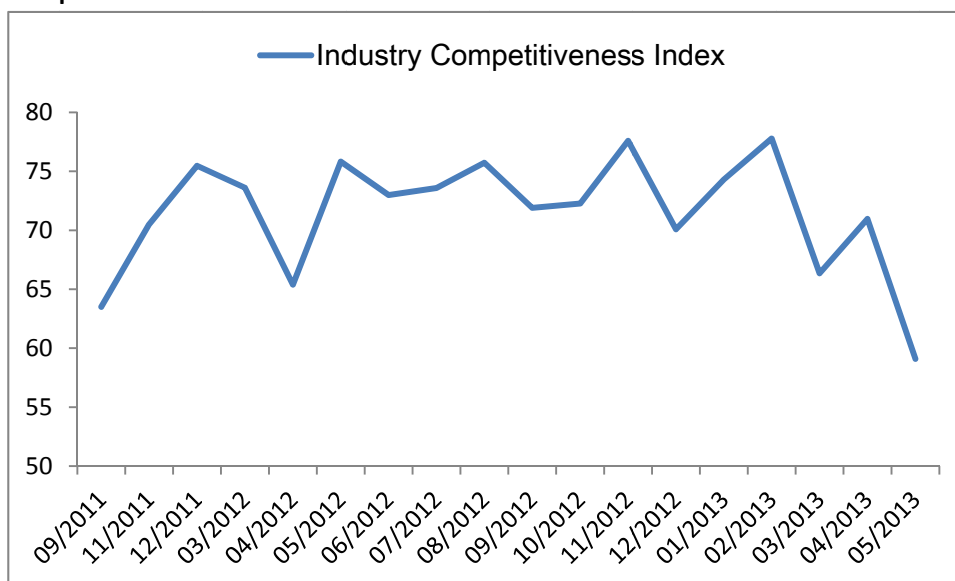


Source: CKGSB Case Center and Center for Economic Research

Taking an overall look at the statistics, it appears that China's economy has already made a turn for the better, but remains prone to instability. Labor and overall cost forecasts are high, showing that firms are experiencing considerable cost pressures. The heating up of costs is aligned closely with the strong showing for forecasted recruitment plans. The consumer prices index suggests inflationary pressure while the producer price index indicates that related overcapacity problems have yet to be resolved.

Lastly, it is important to note that the CKGSB Business Conditions Index is generated wholly on the basis of statistics gathered from leading enterprises whose executives are studying or have studied at CKGSB. Consequently, most firms are in a relatively strong competitive position in their respective industries (see Graph 10).

Graph 10



Source: CKGSB Case Center and Center for Economic Research

Notes:

CKGSB BCI Introduction

In June 2011, CKGSB Case Center and Center for Economic Research initiated a project to gauge the business sentiment of executives about the macro-economic environment in China – called an index of business conditions.

Under the direction of Professor Li Wei, in July 2011, the two research centers designed and tested the BCI survey. In September 2011, the first surveys were distributed and results computed. Since May 2012, the research team has published monthly BCI survey reports.

Explanation of the Index

The CKGSB Business Conditions Index (CKBCI) is a set of forward-looking, diffusion indices. The index takes 50 as its threshold, so an index value above 50 means that the variable that the index measures is expected to increase, while an index value below 50 means that the variable is expected to fall. The CKGSB BCI thus uses the same methodology as the PMI index.

The survey asks senior executives of companies whether their main products are for consumers or non-consumers, and then asks how they think product prices will change in the next six months. Based on survey responses, we have been able to report expectant changes in consumer and producer prices.

We ask companies for information pertaining to their relative competitive positions in their respective industries. Based on survey responses, we compute a competitiveness index for our

sample. The higher the competitiveness index, the more competitive our sample firms are in their respective industries.

Method of Calculation

During each survey, respondents are asked to indicate whether certain aspects of their business (e.g., sales) are expected to increase, remain unchanged, or decrease over the forthcoming six months as compared to the same time period last year. The diffusion index is calculated by summing the percentage of "increase" responses and half of the "remain unchanged" responses.

Of all the indices measured for the CKGSB BCI, the overall business conditions index is an aggregate index, which has been calculated, since December 2012, by averaging its four constituent indices of sales, profit, financing environment and inventory. The aggregate BCI index before December 2012 uses a different composition of constituent indices, and is therefore not directly comparable to the current BCI index.



About Cheung Kong Graduate School of Business

Education for a New Era of Global Business

Established in Beijing in November, 2002 with generous support from the Li Ka Shing Foundation, CKGSB is a private, non-profit, independent educational institution and the only business school in China with faculty governance. The school offers innovative MBA, Finance MBA, Executive MBA and Executive Education programs. In addition to its main campus in the center of Beijing, it has campuses in Shanghai and Shenzhen and offices in Hong Kong, London and New York.

Thought Leaders on Business in China

CKGSB faculty, through their on-the-ground research and close relationships with leading domestic executives, provide global thought leadership on both the theory and the practical reality of real-life business in China. They consistently generate important insights into areas that are poorly understood outside of China, such as the globalization strategies of Chinese companies and competition and collaboration among state-owned enterprises, private businesses and multinationals.

World-Class Faculty with a Global Perspective

CKGSB is the only business school in China with the reputation and resources to attract faculty from top business schools such as Wharton, Stanford, NYU, and INSEAD. The majority of CKGSB faculty members were born and raised in China before leaving to study and teach abroad. Their bicultural backgrounds have endowed them with a valuable capacity to interpret global business in the context of both China and the West.

Disclaimer

This report is based on public information and field research carried out by CKGSB Case Center and CKGSB Center for Economic Research. Sources of these data are deemed reliable, but the two Centers do not guarantee their accuracy and completeness. Opinions expressed in this report reflect only the judgment of the researchers in the two Centers on the day when the report is released, and are subject to change without prior notice. CKGSB holds no liability for any loss that might be brought about by using this report. Readers are advised to use their own discretion and to consider whether any comment or suggestion given in this report is suitable for their personal situation.

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